YELLOWHEAD MINING INC.
Consolidated Financial Statements
December 31, 2012
(Expressed in Canadian Dollars)

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF YELLOWHEAD MINING INC.

We have audited the accompanying consolidated financial statements of Yellowhead Mining Inc., which comprise the consolidated statements of financial position as at December 31, 2012, October 31, 2011 and November 1, 2010, and the consolidated statements of comprehensive income, changes in equity and cash flows for the fourteen months ended December 31, 2012 and twelve months ended October 31, 2011, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Yellowhead Mining Inc. as at December 31, 2012, October 31, 2011 and November 1, 2010, and its financial performance and its cash flows for the fourteen months ended December 31, 2012 and twelve months ended October 31, 2011 in accordance with International Financial Reporting Standards.

Smythe Ratcliffe LLP

Chartered Accountants

Vancouver, British Columbia
March 28, 2013

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YELLOWHEAD MINING INC.

Consolidated Statement of Financial Position

(In Canadian dollars)

	NOTES	As at December 31, 2012	October 31, 2011	November 1, 2010
ASSETS				
Current assets				
Cash and cash equivalents		**$ 7,060,334**	$ 15,668,987	$ 4,734,825
Mineral exploration tax credit receivable	12	**1,711,785**	2,559,183	195,846
HST receivable		**227,302**	1,530,825	87,778
Prepaid expenses and deposits	15	**241,620**	345,099	326,141
		9,241,041	20,104,094	5,344,590
Non-current assets				
Property, plant and equipment	13	**2,329,751**	203,362	144,778
Mineral interests	14	**885,235**	834,026	767,984
Reclamation bond	14	**85,000**	75,000	75,000
Long-term deposits	15	**50,000**	50,000	-
		3,349,986	1,162,388	987,762
TOTAL ASSETS		**$ 12,591,027**	$ 21,266,482	$ 6,332,352
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities	16	**$ 1,339,083**	$ 1,804,138	$ 87,853
Due to related parties	17	**45,021**	362,988	331,306
Flow-through share premium liability	18	**107,070**	-	-
		1,491,174	2,167,126	419,159
EQUITY				
Share capital	18	**50,769,639**	43,875,032	17,338,694
Share subscriptions received		**-**	-	475,250
Equity reserves		**4,731,684**	4,476,095	1,874,205
Accumulated deficit		**(44,401,470)**	(29,251,771)	(13,774,956)
		11,099,853	19,099,356	5,913,193
TOTAL LIABILITIES AND EQUITY		**$ 12,591,027**	$ 21,266,482	$ 6,332,352

Commitments (Note 21)

The accompanying notes are an integral part of these consolidated financial statements

APPROVED ON BEHALF OF THE BOARD OF DIRECTORS:

"Andy Graetz"
DIRECTOR

"David J. H. Dickens"
DIRECTOR

YELLOWHEAD MINING INC.

Consolidated Statement of Comprehensive Income

(In Canadian dollars)

	NOTES	Fourteen months ended December 31, 2012	Twelve months ended October 31, 2011
Administrative expenses			
Amortization		**$ 98,531**	$ 80,006
Consulting fees		**784,275**	460,741
Filing fees		**180,121**	104,011
Insurance		**43,011**	24,133
Investor relations		**799,736**	879,140
Office supplies and services		**109,591**	98,624
Professional fees		**566,596**	366,762
Rent		**130,821**	44,480
Share-based compensation	18	**554,611**	1,876,638
Wages and benefits		**2,345,690**	861,102
		5,612,983	4,795,637
Evaluation and exploration expenses	9	**9,593,257**	9,642,205
Other expenses/(income)			
Share issue costs on reverse take over	5	**-**	1,190,813
Interest income		**(126,673)**	(156,463)
Other expenses		**70,132**	4,624
Net loss and comprehensive loss		**$ 15,149,699**	$ 15,476,816
Loss per share			
Basic and diluted	11	**$ 0.28**	$ 0.34
Weighted average number of shares outstanding			
Basic and diluted		**54,168,518**	44,974,574

The accompanying notes are an integral part of these consolidated financial statements

YELLOWHEAD MINING INC.

Consolidated Statement of Changes in Equity

(In Canadian dollars)

	NOTES	Number of shares	Share capital	Share subscription received	Equity reserves	Accumulated deficit	Total
Balances as at November 1, 2010		31,598,381	$ 17,338,694	$ 475,250	$ 1,874,205	$ (13,774,955)	$ 5,913,194
Shares issued for:							
Private placements, for cash		19,602,495	27,521,608	-	-	-	27,521,608
Share issue costs		-	(2,428,389)	-	668,202	-	(1,760,187)
Conversion of Four Points shares	5	1,110,000	1,199,493	-	96,630	-	1,296,123
Exercise of stock options		405,500	207,330	-	(39,580)	-	167,750
Exercise of warrants		45,592	36,296	-	-	-	36,296
Share-based compensation		-	-	-	1,876,638	-	1,876,638
Adjustment for subscriptions receivable		-	-	(475,250)	-	-	(475,250)
Net loss and comprehensive loss for the period		-	-	-	-	(15,476,816)	(15,476,816)
Balances as at October 31, 2011		52,761,968	$ 43,875,032	$ -	$ 4,476,095	$ (29,251,771)	$ 19,099,356
Balances as at November 1, 2011		**52,761,968**	**$ 43,875,032**	**$ -**	**$ 4,476,095**	**$ (29,251,771)**	**$19,099,356**
Shares issued for:							
Private placements, for cash		**10,173,710**	**6,612,912**	**-**	**-**	**-**	**6,612,912**
Share issue costs		**-**	**(387,072)**	**-**	**-**	**-**	**(387,072)**
Exercise of stock options		**505,500**	**658,336**	**-**	**(293,087)**	**-**	**365,249**
Exercise of warrants		**8,992**	**10,431**	**-**	**(5,935)**	**-**	**4,496**
Share-based compensation		**-**	**-**	**-**	**554,611**	**-**	**554,611**
Net loss and comprehensive loss for the period		**-**	**-**	**-**	**-**	**(15,149,699)**	**(15,149,699)**
Balances as at December 31, 2012		**63,450,170**	**$ 50,769,639**	**$ -**	**$ 4,731,684**	**$ (44,401,470)**	**$11,099,853**

The accompanying notes are an integral part of these consolidated financial statements

YELLOWHEAD MINING INC.
Consolidated Statement of Cash Flows
(In Canadian dollars)

	NOTES	Fourteen months ended December 31, 2012	Twelve months ended October 31, 2011
Operating activities			
Net Loss for the period		**$ (15,149,699)**	$ (15,476,816)
Items not involving cash:			
Share issue costs on reverse take over	5	**-**	1,190,813
Share-based compensation		**554,611**	1,876,638
Amortization		**98,531**	80,006
Loss on disposal of property, plant and equipment		**1,589**	-
Changes in non-cash working capital			
Mineral exploration tax credit receivable		**847,398**	(2,363,337)
HST receivable		**1,303,523**	(1,438,802)
Prepaid expenses and deposits		**103,479**	(18,958)
Accounts payable and accrued liabilities		**(465,055)**	1,716,285
Due to related parties		**(317,967)**	31,682
Cash used in operating activities		**(13,023,590)**	(14,402,489)
Investing activities			
Acquisition of property, plant and equipment	13	**(2,226,510)**	(138,589)
Acquisition of mineral interests	14	**(51,209)**	(66,042)
Payment of reclamation bond		**(10,000)**	-
Deposit paid		**-**	(50,000)
Cash received upon acquisition of Four Points, net of transaction costs	5	**-**	101,065
Cash used in investing activities		**(2,287,719)**	(153,566)
Financing activities			
Proceeds from issuance of capital stock, net of share issue costs		**6,702,656**	25,490,217
Cash provided by financing activities		**6,702,656**	25,490,217
Net (decrease)/increase in cash and cash equivalents		**(8,608,653)**	10,934,162
Cash, beginning of period		**15,668,987**	4,734,825
Cash, end of period		**$ 7,060,334**	$ 15,668,987

Supplemental cash flow information (Note 20)

The accompanying notes are an integral part of these consolidated financial statements

1. NATURE OF OPERATIONS

Yellowhead Mining Inc. ("Yellowhead" or the "Company") was incorporated on August 23, 2005 under the laws of British Columbia and is an exploration stage company engaged principally in the acquisition, exploration and development of mineral properties.

The Company's head office is located at 800 West Pender Street, Suite 730, Vancouver, British Columbia, V6C 2V6 and its registered and records office is located at Suite 2900, 550 Burrard Street, Vancouver, British Columbia, V6C 0A3.

On November 9, 2010, the Company completed a reverse acquisition as further described in Note 5.

These consolidated financial statements have been prepared on a going-concern basis, which contemplates the Company will continue in operations for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business. The Company's ability to continue as a going concern is dependent upon receipt of all required permits, establishment of profitable operations and the Company's ability to obtain additional financing or outside participation to undertake further exploration and subsequent development of its mineral interests. The Company is of the opinion that additional financing will be available to continue its planned activities in the normal course. However, there is no certainty that additional financing at terms that are acceptable will be available.

The Company's investment in mineral interests comprise a significant portion of the Company's activities. Realization of the Company's investment in these properties is dependent on establishing legal ownership of the properties, on the attainment of successful commercial production, or from the proceeds of their disposal. The recoverability of the amounts shown for mineral interests and property, plant and equipment is dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete the development of the properties, and upon future production or proceeds from the disposition thereof.

2. BASIS OF PRESENTATION

(a) Statement of compliance

These consolidated financial statements, including comparatives, have been prepared in accordance with and using accounting policies consistent with the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"), effective for the Company's reporting for the fourteen months ended December 31, 2012.

These are the Company's first consolidated annual financial statements prepared in accordance with IFRS. Previously, the Company prepared its consolidated financial statements in accordance with Canadian Generally Accepted Accounting Principles ("GAAP").

These consolidated financial statements were approved and authorized for issue by the Board of Directors on March 28, 2013.

2. BASIS OF PRESENTATION (Continued)

(b) Basis of presentation

These financial statements are expressed in Canadian Dollars, the Company's functional currency and have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair value, as explained in the accounting policies set out in Note 3. The Comparative figures presented in these consolidated financial statements are in accordance with IFRS and any changes from figures previously reported under GAAP have been discussed further in Note 22.

(c) Adoption of IFRS

These are the Company's first consolidated annual financial statements to be presented in accordance with IFRS for the fourteen months ending December 31, 2012. Previously, the Company prepared its consolidated annual financial statements in accordance with Canadian Generally Accepted Accounting Principles ("GAAP").

The preparation of these consolidated financial statements resulted in changes to the accounting policies used in the most recent annual financial statements prepared under Canadian GAAP. The accounting policies used have been applied to all periods presented in these consolidated financial statements. They have also been applied in preparing an opening Consolidated Statement of Financial Position as at November 1, 2010 as required by IFRS 1 – *First Time Adoption of International Financial Reporting Standards*. Detailed disclosures of the effects of transition to IFRS from Canadian GAAP can be found in Note 22.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of consolidation

The consolidated financial statements include the accounts of the Company and its controlled subsidiaries. Control is achieved when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The only subsidiary of the Company as at the date of these financial statements is the wholly-owned Harper Creek Mining Corporation based in British Columbia, Canada. All intercompany balances and transactions have been eliminated.

(b) Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The cost of the business combination is measured as the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Company in exchange for control of the acquiree. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 – *Business Combinations* are recognized at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held-for-sale in accordance with IFRS 5 - *Non-current Assets Held for Sale and Discontinued Operations*, which are recognized and measured at fair value less costs to sell.

(c) Share-based compensation

The Company grants share-based awards to certain officers, employees, directors and other eligible persons. For equity settled awards, the fair value is charged to the consolidated statement of comprehensive income and credited to the related reserve account, on a straight-line basis over the vesting period, after adjusting for the estimated number of awards that are expected to vest.

The fair value of the equity-settled awards is determined at the date of the grant. In calculating fair value, no account is taken of any vesting conditions, other than conditions linked to the price of the shares of the Company. The fair value is determined by using the Black-Scholes option pricing model. At each statement of financial position date, the cumulative expense representing the extent to which the vesting period has expired and management's best estimate of the awards that are ultimately expected to vest is computed. The movement in cumulative expense is recognised in the consolidated statement of comprehensive income with a corresponding entry against the related reserve. No expense is recognised for awards that do not ultimately vest.

(d) Interest income

Interest income from financial assets is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Taxes

Current tax
Current tax for the Company is based on the local taxable income at the local statutory tax rate enacted or substantively enacted at the statement of financial position date, and includes adjustments to tax payable or recoverable in respect of previous years.

Deferred tax
Deferred tax is accounted for using the liability method, providing for the tax effect of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their respective tax bases.

Deferred income tax liabilities are recognized for all taxable temporary differences except where the deferred income tax liability arises from the initial recognition of goodwill, or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss in respect of taxable temporary differences associated with investments in subsidiaries and interest in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax credits and losses can be utilized, except where the deferred income tax asset related to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss. In respect of deductible temporary differences associated with investments in subsidiaries and interest in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred income tax assets is reviewed at each statement of financial position date and is adjusted to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be utilized. To the extent that an asset not previously recognized fulfils the criteria for recognition, a deferred income tax asset is recorded.

Deferred tax is measured on an undiscounted basis using the tax rates that are expected to apply in the period when the liability is settled or the asset is realized, based on tax rates and tax laws enacted or substantively enacted at the statement of financial position date. Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax relating to items recognized directly in equity is recognized in equity and not in the consolidated statement of comprehensive income.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Comprehensive loss

Comprehensive loss consists of net loss and other comprehensive income/(loss) ("OCI"). OCI represents changes in shareholders' equity during a period arising from transactions and other events with non-owner sources. For all periods covered by these consolidated financial statements, comprehensive loss and net loss are the same.

(g) Share capital

Common shares
Common shares are classified as equity. Transaction costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effects.

Flow-through shares
Issuance of flow-through shares represents an issue of common shares and the sale of right to tax deductions to the investors when the flow-through shares are issued. The sale of the right to tax deductions is deferred and presented as a liability in the statement of financial position. The proceeds received from flow-through placements are allocated between share capital and liability using the residual method which means that the shares are valued at the fair value of existing shares at the time of issuance and the residual proceeds are allocated to a liability. Thereafter, as qualifying resource expenditures are incurred, these costs are expensed to exploration expense and the flow-through share premium is amortized to profit or loss.

At the end of each reporting period, the Company reviews its tax position and records an adjustment to its deferred tax expense/liability accounts for taxable temporary differences, including those arising from the transfer of tax benefits to investors through flow-through shares. For this adjustment, the Company considers the tax benefits (of qualifying resource expenditures already incurred) to have been effectively transferred, if it has formally renounced those expenditures at any time (before or after the end of the reporting period).

Equity Units
Proceeds received on the issuance of units, consisting of common shares and warrants, are allocated first to common shares based on the market trading price of the common shares at the time the units are priced or issued, and any excess is allocated to warrants.

(h) Loss per share

The basic loss per share is computed by dividing the net loss by the weighted average number of common shares outstanding during the period. The diluted loss per share reflects the potential dilution of common share equivalents such as outstanding stock options and share purchase warrants, in the weighted average number of common shares outstanding during the period if dilutive. The treasury stock method is used for the assumed proceeds upon the exercise of the options and warrants that are used to purchase common shares of the Company at the average market price during the period. The effect is to increase the number of shares used to calculate diluted earnings per share.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, bank balances, deposits held at call and certificates of deposits, money market instruments, including cashable guaranteed investment certificates with an original term to maturity of three months or less at date of purchase, and are carried at amortized cost.

(j) Mining Exploration Tax Credits

The Company qualifies for BC Mineral Exploration Tax Credits ("METC") as it has incurred qualified mineral exploration expenditures for determining the existence, location, extent or quality of a mineral resource in the province of British Columbia. The tax credit is calculated as 30% (for the area in which the Company operates) of qualified mineral exploration expenditures incurred.

The Company recognizes a METC receivable and records those amounts as a recovery against evaluation and exploration expenses in the period in which recoverability can be established and the amount quantified. The amount ultimately recoverable may be different from the amount claimed once an audit by the taxation authorities is completed.

(k) Property, plant and equipment ("PPE")

Property, plant and equipment is recorded at cost less accumulated amortization and accumulated impairment losses. The cost of an item of PPE includes its purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and the estimated close down and restoration costs associated with dismantling and removing the asset.

Amortization is provided at rates calculated to write off the cost of PPE, less their estimated residual value, using the straight-line method or unit-of-production method over their expected useful lives as follows:

- Field camp equipment – 5 years straight-line basis
- Furniture and fixtures – 5 years straight-line basis
- Computer equipment and software – 3 years straight line basis
- Construction in progress – see below
- Mining properties – unit-of-production basis based on reserves

Construction in progress is carried at cost less any recognized impairment loss. Construction in progress is classified to the appropriate category of PPE when completed and ready for its intended use at which time amortization begins based on the appropriate category of PPE.

An item of PPE is derecognized upon disposal, when held for sale or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal, determined as the difference between the net disposal proceeds and the carrying value of the asset, is recognized in the consolidated statement of comprehensive income.

Estimates of residual values and useful lives are reassessed annually and any change in estimate is taken into account in the determination of remaining amortization charges. Amortization commences on the date when the asset is available for use.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Mineral interests

Mineral interests include the purchase price of mineral properties and any costs incurred for mineral properties not classified as evaluation and exploration expenses. When economically viable reserves have been determined, technical feasibility has been determined and the decision to proceed with development has been approved, the capitalized mineral interests for that project are capitalized as mining properties, a component of PPE.

Stripping costs
Stripping costs (also referred to as costs of removing overburden) incurred during the development of a mine are capitalized into PPE. Stripping costs incurred during the commercial production phase are variable production costs that are included in the costs of inventory produced during the period that the stripping costs are incurred, unless the stripping activity can be shown to give rise to future benefits from the mineral property, in which case the stripping costs would be capitalized into PPE.

Future benefits arise when stripping activity increases the future output of the mine by providing access to a new ore body that the previously deferred stripping costs in an area did not give access to. When stripping activities give rise to a future economic benefit, the costs associated with these activities are capitalized into PPE. Capitalized stripping costs are depleted on a unit-of-production basis, using estimated reserves as the depletion base.

(m) Evaluation and exploration expenses

Evaluation and exploration expenses are comprised of costs that are directly attributable to:

- researching and analyzing existing exploration data;
- conducting geological studies, exploratory drilling and sampling;
- examining and testing extraction and treatment methods; and
- activities in relation to evaluating the technical feasibility and commercial viability of extracting a mineral resource.

All exploration and evaluation expenditures are expensed until properties are determined to contain economically viable reserves. When economically viable reserves have been determined, technical feasibility has been determined and the decision to proceed with development has been approved, the subsequent costs incurred for the development of that project are capitalized as mining properties, a component of property, plant and equipment.

Development expenditures are net of the proceeds of the sale of ore extracted during the development phase. Interest on borrowings related to the construction and development of assets are capitalized until substantially all the activities required to make the asset ready for its intended use are complete.

The costs of removing overburden to access ore are capitalized as pre-production stripping costs and classified as mineral interests.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Decommissioning, restoration and similar liabilities

The Company recognizes provisions for statutory, contractual, constructive or legal obligations, including those associated with the reclamation of mineral properties and mineral assets under PPE, when those obligations result from the acquisition, construction, development or normal operation of the assets. Initially, a provision for a decommissioning liability (also referred to as an asset retirement obligation) is recognized as its present value in the period in which it is incurred. Upon initial recognition of the liability, a corresponding amount is added to the carrying amount of the related asset and the cost is amortized as an expense over the economic life of the asset using either the unit-of-production method or the straight-line method, as appropriate. Following the initial recognition of the decommissioning liability, the carrying amount of the liability is increased for the passage of time and adjusted for changes to the current market based discount rate and the amount or timing of the underlying cash flows needed to settle the obligation.

The provision is reviewed on an annual basis for changes to obligations, legislation or discount rates that impact estimated costs or lives of operations. The cost of the related asset is adjusted for changes in the provision resulting from changes in the estimated cash flows or discount rate and the adjusted cost of the asset is amortized prospectively.

(o) Financial instruments

Financial assets

All financial assets are initially recorded at fair value and designated upon inception into one of the following four categories: held-to-maturity, available-for-sale, loans-and-receivables or at fair value through profit or loss ("FVTPL").

Financial assets classified as FVTPL are measured at fair value with unrealized gains and losses recognized through profit and loss.

Financial assets classified as loans-and-receivables and held-to-maturity are measured at amortized cost using the effective interest method less any allowance for impairment. The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Financial assets classified as available-for-sale are measured at fair value with unrealized gains and losses recognized in other comprehensive income (loss) except for losses in value that are considered other than temporary or a significant or prolonged decline in the fair value of that investment below its cost.

Transactions costs associated with FVTPL financial assets are expensed as incurred, while transaction costs associated with all other financial assets are included in the initial carrying amount of the asset.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial liabilities
All financial liabilities are initially recorded at fair value and designated upon inception as FVTPL or other financial-liabilities.

Financial liabilities classified as other-financial-liabilities are initially recognized at fair value less directly attributable transaction costs. After initial recognition, other-financial-liabilities are subsequently measured at amortized cost using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Financial liabilities classified as FVTPL include financial liabilities held-for-trading and financial liabilities designated upon initial recognition as FVTPL. Derivatives, including separated embedded derivatives, are also classified as held-for-trading unless they are designated as effective hedging instruments. Transaction costs on financial liabilities classified as FVTPL are expensed as incurred. At the end of each reporting period subsequent to initial recognition, financial liabilities classified as FVTPL are measured at fair value, with changes in fair value recognized directly in profit or loss in the period in which they arise. The net gain or loss recognized in profit or loss excludes any interest paid on the financial liabilities.

(p) Impairment of financial assets

The Company assesses at the end of each reporting period whether a financial asset is impaired.

Assets carried at amortized cost
If there is objective evidence that an impairment loss on assets carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is then reduced by the amount of the impairment. The amount of the loss is recognized in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed to the extent that the carrying value of the asset does not exceed what the amortized cost would have been had the impairment not been recognized. Any subsequent reversal of an impairment loss is recognized in profit or loss.

Available for sale
If an available for sale asset is impaired, an amount comprising the difference between its cost and its current fair value, less any impairment loss previously recognized in profit or loss, is transferred from equity to profit or loss. Reversals in respect of equity instruments classified as available-for-sale are not recognized in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) Impairment of non-financial assets

At the end of each reporting period, the Company reviews the carrying amounts of its assets to determine whether there is an indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the assets belong.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in the statement of comprehensive income.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years.

(r) Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources that can be reliably estimated will be required to settle the obligation. Where a provision is measured using the cash flows estimated to settle the obligation, its carrying amount is the present value of those cash flows.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(s) Critical accounting judgments and estimates

The preparation of these financial statements requires management to make judgments and estimates and form assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. On an ongoing basis, management evaluates its judgments and estimates in relation to assets, liabilities, revenue and expenses. Management uses historical experience and various other factors it believes to be reasonable under the given circumstances as the basis for its judgments and estimates. Actual outcomes may differ from these estimates under different assumptions and conditions.

The most significant areas of judgments and estimates made by management are as follows:

Estimated reserves, resources and exploration potential
Reserves are estimates of the amount of product that can be extracted from the Company's properties, considering both economic and legal factors. Calculating reserves and estimates requires decisions on assumptions about geological, technical and economic factors, including quantities, grades, production techniques, recovery rates, production costs, transport costs, commodity demand, prices and exchange rates. Estimating the quantity and/or grade of reserves require the analysis of drilling samples and other geological data. Estimates of reserves may change from period to period as the economic assumptions used to estimate reserves change from period to period, and because additional geological data is generated during the course of operations. Changes in reported reserves may affect the Company financial position.

Impairment of property, plant and equipment and mineral interests
Assets or cash generating units are evaluated at each reporting date to determine whether there are any indications of impairment. The Company considers both internal and external sources of information when making the assessment of whether there are indications of impairment for the Company's property plant and equipment and mineral interests. External sources of information considered are changes in the Company's economic, legal and regulatory environment which it does not control but affect the recoverability of its mining assets. Internal sources of information the Company considers include the manner in which mining properties and plant and equipment are being used or are expected to be used and indications of economic performance of the assets.

If any indication of impairment exists, a formal estimate of recoverable amount is performed and an impairment loss recognized to the extent that carrying amount exceeds recoverable amount. The recoverable amount of an asset or cash generating group of assets is measured at the higher of fair value less costs to sell and value in use.

As at December 31, 2012, the Company believes there are no indications of impairment for the carrying value of its property plant and equipment and mineral interests.

Mining exploration tax credits
The Company is entitled to refundable tax credits on qualified mining exploration expenses incurred in the province of British Columbia. Management's judgment is applied in determining whether the mining exploration expenses are eligible for claiming such credits. Those benefits are recognized when the Company estimates that it has reasonable assurance that the tax credits will be realized. Upon review of the mining exploration tax credit claim by the Canada Revenue Agency, any adjustments to the estimate made by the Company are recorded in the period of the tax assessment.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Amortization rates for PPE
Property, plant and equipment is recorded at cost less accumulated amortization and accumulated impairment losses. Amortization is provided at rates calculated to write off the cost of PPE, less their estimated residual value, using the straight-line method or unit-of-production method over their expected useful lives. Estimates of residual values and useful lives are reassessed annually and any change in estimate is taken into account in the determination of remaining amortization charges. Amortization commences on the date when the asset is available for use.

Fair value of share-based compensation
The Company grants share-based awards to certain officers, employees, directors and other eligible persons. For equity settled awards, the fair value is charged to the consolidated statement of comprehensive income and credited to the related reserve account, on a straight-line basis over the vesting period, after adjusting for the estimated number of awards that are expected to vest.

The fair value of the equity-settled awards is determined at the date of the grant using the Black-Scholes option pricing model. Option pricing models require the input of highly subjective assumptions, including the expected price, expected volatility and expected life of the options. Changes in these assumptions can materially affect the fair value estimate and, therefore, the existing models do not necessarily provide a reliable measure of the fair value of the Company's stock options.

Decommissioning, restoration and similar liabilities
Decommissioning and restoration obligation provisions represents management's best estimate of the present value of the future costs. Significant estimates and assumptions are made in determining the amount of obligations provisions. Those estimates and assumptions deal with uncertainties such as: requirements of the relevant legal and regulatory framework; the magnitude of possible disturbance; and the timing, extent and costs of required restoration and rehabilitation activity. These uncertainties may result in future actual expenditures differing from the amounts currently provided.

Taxation
The provision for income taxes and composition of income tax assets and liabilities requires management's judgment as to the types of arrangements considered to be a tax on income in contrast to an operating cost. Judgment is also required in assessing whether deferred tax assets and certain deferred tax liabilities are recognized in the statement of financial position.

Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. These depend on estimates of future production and sales volumes, commodity prices, reserves, operating costs, and other capital management transactions. The application of income tax legislation also requires judgments. These judgments and assumptions are subject to risk and uncertainty, therefore there is a possibility that changes in circumstances will alter expectations, which may impact the amount of deferred tax assets and deferred tax liabilities recognized on the statement of financial position and the amount of other tax losses and temporary differences not yet recognized.

4. FUTURE ACCOUNTING POLICIES

The following new standards, amendments to standards and interpretations have been issued but are not effective for the fourteen months ended December 31, 2012, all of the new and revised standards described below may be early-adopted:

IAS 27 Separate Financial Statements (2011)
This amended version of IAS 27 that now only deals with the requirements for separate financial statements, which have been carried over largely unamended from IAS 27 Consolidated and Separate Financial Statements. Requirements for consolidated financial statements are now contained in IFRS 10 Consolidated Financial Statements. Applicable to annual periods beginning on or after January 1, 2013. If early-adopted, must be adopted together with IFRS 10, IFRS 11, IFRS 12 and IAS 28 (2011).

IAS 28 Investments in Associates and Joint Ventures (2011)
This standard supersedes IAS 28 Investments in Associates and prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. The standard defines "significant influence" and provides guidance on how the equity method of accounting is to be applied (including exemptions from applying the equity method in some cases). It also prescribes how investments in associates and joint ventures should be tested for impairment. Applicable to annual periods beginning on or after January 1, 2013. If early-adopted, must be adopted together with IFRS 10, IFRS 11, IFRS 12 and IAS 27 (2011).

IFRS 9 Financial Instruments (2009)
IFRS 9 introduces new requirements for classifying and measuring financial assets, as follows:

- Debt instruments meeting both a "business model" test and a "cash flow characteristics" test are measured at amortized cost (the use of fair value is optional in some limited circumstances)
- Investments in equity instruments can be designated as "fair value through other comprehensive income" with only dividends being recognized in profit or loss
- All other instruments (including all derivatives) are measured at fair value with changes recognized in profit or loss
- The concept of "embedded derivatives" does not apply to financial assets within the scope of the standard and the entire instrument must be classified and measured in accordance with the above guidelines.

This standard is only applicable if it is optionally adopted for annual periods beginning before January 1, 2015. For annual periods beginning on or after January 1, 2015, the Company must adopt IFRS 9 (2010).

IFRS 9 Financial Instruments (2010)
This is a revised version incorporating revised requirements for the classification and measurement of financial liabilities, and carrying over the existing de-recognition requirements from IAS 39 Financial Instruments: Recognition and Measurement. The revised financial liability provisions maintain the existing amortized cost measurement basis for most liabilities. New requirements apply where an entity chooses to measure a liability at fair value through profit or loss – in these cases, the portion of the change in fair value related to changes in the entity's own credit risk is presented in other comprehensive income rather than within profit or loss. Applies to annual periods beginning on or after January 1, 2015. This standard supersedes IFRS 9 (2009). However, for annual periods beginning before January 1, 2015, an entity may early-adopt IFRS 9 (2009) instead of applying this standard.

4. FUTURE ACCOUNTING POLICIES (Continued)

IFRS 10 Consolidated Financial Statements
Requires a parent to present consolidated financial statements as those of a single economic entity, replacing the requirements previously contained in IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation - Special Purpose Entities. The standard identifies the principles of control, determines how to identify whether an investor controls an investee and therefore must consolidate the investee, and sets out the principles for the preparation of consolidated financial statements. The standard introduces a single consolidation model for all entities based on control, irrespective of the nature of the investee (i.e., whether an entity is controlled through voting rights of investors or through other contractual arrangements as is common in "special purpose entities"). Under IFRS 10, control is based on whether an investor has power over the investee, exposure, or rights, to variable returns from its involvement with the investee, and the ability to use its power over the investee to affect the amount of the returns. Applicable to annual periods beginning on or after January 1, 2013. If early-adopted, must be adopted together with IFRS 11, IFRS 12, IAS 27 (2011) and IAS 28 (2011).

IFRS 11 Joint Arrangements
Replaces IAS 31 Interests in Joint Ventures. Requires a party to a joint arrangement to determine the type of joint arrangement in which it is involved by assessing its rights and obligations and then account for those rights and obligations in accordance with that type of joint arrangement. Joint arrangements are either joint operations or joint ventures:

- A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement (joint operators) have rights to the assets, and obligations for the liabilities, relating to the arrangement. Joint operators recognize their assets, liabilities, revenue and expenses in relation to its interest in a joint operation (including their share of any such items arising jointly)
- A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement (joint venturers) have rights to the net assets of the arrangement. A joint venturer applies the equity method of accounting for its investment in a joint venture in accordance with IAS 28 Investments in Associates and Joint Ventures (2011). Unlike IAS 31, the use of "proportionate consolidation" to account for joint ventures is not permitted.

Applicable to annual periods beginning on or after January 1, 2013. If early-adopted, must be adopted together with IFRS 10, IFRS 12, IAS 27 (2011) and IAS 28 (2011).

4. FUTURE ACCOUNTING POLICIES (Continued)

IFRS 12 Disclosure of Interests in Other Entities
Requires the extensive disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with, interests in other entities and the effects of those interests on its financial position, financial performance and cash flows. In high-level terms, the required disclosures are grouped into the following broad categories:

- Significant judgments and assumptions - such as how control, joint control, significant influence has been determined
- Interests in subsidiaries - including details of the structure of the group, risks associated with structured entities, changes in control, and so on
- Interests in joint arrangements and associates - the nature, extent and financial effects of interests in joint arrangements and associates (including names, details and summarized financial information)
- Interests in unconsolidated structured entities - information to allow an understanding of the nature and extent of interests in unconsolidated structured entities and to evaluate the nature of, and changes in, the risks associated with its interests in unconsolidated structured entities

IFRS 12 lists specific examples and additional disclosures which further expand upon each of these disclosure objectives, and includes other guidance on the extensive disclosures required.
Applicable to annual periods beginning on or after January 1, 2013. If early-adopted, must be adopted together with IFRS 10, IFRS 11, IAS 27 (2011) and IAS 28 (2011).

IFRS 13 Fair Value Measurement
Replaces the guidance on fair value measurement in existing IFRS accounting literature with a single standard. This IFRS defines fair value, provides guidance on how to determine fair value and requires disclosures about fair value measurements. However, IFRS 13 does not change the requirements regarding which items should be measured or disclosed at fair value. IFRS 13 applies when another IFRS requires or permits fair value measurements or disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosures about those measurements). With some exceptions, the standard requires entities to classify these measurements into a “fair value hierarchy” based on the nature of the inputs:

- Level 1 - quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date
- Level 2 - inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
- Level 3 - unobservable inputs for the asset or liability

Entities are required to make various disclosures depending upon the nature of the fair value measurement (e.g., whether it is recognized in the financial statements or merely disclosed) and the level in which it is classified. Applicable to annual periods beginning on or after January 1, 2013.

Amendments to IFRS 7 Financial Instruments: Disclosures
Makes amendments resulting from the IASB's comprehensive review of off balance sheet activities. The amendments introduce additional disclosures, designed to allow users of financial statements to improve their understanding of transfer transactions of financial assets (for example, securitizations), including understanding the possible effects of any risks that may remain with the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period. Applies to annual periods beginning on or after July 1, 2011.

4. FUTURE ACCOUNTING POLICIES (Continued)

Deferred Tax: Recovery of Underlying Assets (Amendments to IAS 12)
Amends IAS 12 Income Taxes to provide a presumption that recovery of the carrying amount of an asset measured using the fair value model in IAS 40 Investment Property will, normally, be through sale. As a result of the amendments, SIC-21 Income Taxes — Recovery of Revalued Non-Depreciable Assets would no longer apply to investment properties carried at fair value. The amendments also incorporate into IAS 12 the remaining guidance previously contained in SIC-21, which is accordingly withdrawn. Applicable to annual periods beginning on or after January 1, 2012.

Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (Amendments to IFRS 1)
Amends IFRS 1 First-time Adoption of International Financial Reporting Standards to:

- Replace references to a fixed date of "January 1, 2004" with "the date of transition to IFRS", thus eliminating the need for companies adopting IFRS for the first time to restate de-recognition transactions that occurred before the date of transition to IFRS
- Provide guidance on how an entity should resume presenting financial statements in accordance with IFRS after a period when the entity was unable to comply with IFRS because its functional currency was subject to severe hyperinflation.

Applicable to annual periods beginning on or after July 1, 2011.

IAS 19 Employee Benefits (2011)
This is an amended version with revised requirements for pensions and other post-retirement benefits, termination benefits and other changes. The key amendments include:

- Requiring the recognition of changes in the net defined benefit liability (asset) including immediate recognition of defined benefit cost, disaggregation of defined benefit cost into components, recognition of re-measurements in other comprehensive income, plan amendments, curtailments and settlements (eliminating the "corridor approach" permitted by the existing IAS 19)
- Introducing enhanced disclosures about defined benefit plans
- Modifying accounting for termination benefits, including distinguishing benefits provided in exchange for service and benefits provided in exchange for the termination of employment and affect the recognition and measurement of termination benefits
- Clarifying various miscellaneous issues, including the classification of employee benefits, current estimates of mortality rates, tax and administration costs and risk-sharing and conditional indexation features
- Incorporating other matters submitted to the IFRS Interpretations Committee.

Applicable to annual periods beginning on or after January 1, 2013.

4. FUTURE ACCOUNTING POLICIES (Continued)

Presentation of Items of Other Comprehensive Income (Amendments to IAS 1)
Amends IAS 1 Presentation of Financial Statements to revise the way other comprehensive income is presented. The amendments:

- Preserve the amendments made to IAS 1 in 2007 to require profit or loss and other comprehensive income to be presented together, i.e., either as a single "statement of profit or loss and comprehensive income", or a separate "statement of profit or loss' and a 'statement of comprehensive income" – rather than requiring a single continuous statement as was proposed in the exposure draft
- Require entities to group items presented in other comprehensive income based on whether they are potentially reclassifiable to profit or loss subsequently. i.e., those that might be reclassified and those that will not be reclassified
- Require tax associated with items presented before tax to be shown separately for each of the two groups of other comprehensive income items (without changing the option to present items of other comprehensive income either before tax or net of tax).

Applicable to annual periods beginning on or after July 1, 2012.

IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine
Clarifies the requirements for accounting for stripping costs associated with waste removal in surface mining, including when production stripping costs should be recognized as an asset, how the asset is initially recognized, and subsequent measurement. The Interpretation requires stripping activity costs which provide improved access to ore are recognized as a non-current "stripping activity asset" when certain criteria are met. The stripping activity asset is depreciated or amortized on a systematic basis, over the expected useful life of the identified component of the ore body that becomes more accessible as a result of the stripping activity, using the units of production method unless another method is more appropriate. Applies to annual periods beginning on or after January 1, 2013.

Disclosures — Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7)
Amends the disclosure requirements in IFRS 7 Financial Instruments: Disclosures to require information about all recognized financial instruments that are set-off in accordance with paragraph 42 of IAS 32 Financial Instruments: Presentation. The amendments also require disclosure of information about recognized financial instruments subject to enforceable master netting arrangements and similar agreements even if they are not set off under IAS 32. Applicable to annual periods beginning on or after January 1, 2013 and interim periods within those periods.

Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32)
Amends IAS 32 Financial Instruments: Presentation to clarify certain aspects because of diversity in application of the requirements on offsetting, focused on four main areas:

- the meaning of "currently has a legally enforceable right of set-off"
- the application of simultaneous realization and settlement
- the offsetting of collateral amounts
- the unit of account for applying the offsetting requirements.

Applicable to annual periods beginning on or after January 1, 2014.

4. FUTURE ACCOUNTING POLICIES (Continued)

Annual Improvements 2009-2011 Cycle
Makes amendments to the following standards:

- IFRS 1 — Permit the repeated application of IFRS 1, borrowing costs on certain qualifying assets
- IAS 1 — Clarification of the requirements for comparative information
- IAS 16 — Classification of servicing equipment
- IAS 32 — Clarify that tax effect of a distribution to holders of equity instruments should be accounted for in accordance with IAS 12 Income Taxes
- IAS 34 — Clarify interim reporting of segment information for total assets in order to enhance consistency with the requirements in IFRS 8 Operating Segments

Applicable to annual periods beginning on or after January 1, 2013.

Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance
Amends IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities to provide additional transition relief by limiting the requirement to provide adjusted comparative information to only the preceding comparative period. Also, amendments to IFRS 11 and IFRS 12 eliminate the requirement to provide comparative information for periods prior to the immediately preceding period. Applicable to annual periods beginning on or after January 1, 2013.

(In Canadian dollars)

5. REVERSE TAKE-OVER

On November 9, 2010, Four Points Capital Corp. ("Four Points") completed the amalgamation (the "Amalgamation") of its wholly owned subsidiary, 0887988 B.C. Ltd., with Yellowhead Mining Inc. ("Former Yellowhead"). The resulting amalgamated entity will continue operations as Harper Creek Mining Corporation. Under the agreement, the shareholders of Former Yellowhead exchanged all their issued and outstanding shares on a one-for-one basis for shares of Four Points. Upon completion, Four Points changed its name to Yellowhead Mining Inc. ("New Yellowhead").

As a result of the transaction, the former shareholders of Former Yellowhead owned in excess of 50% of the outstanding shares of New Yellowhead. The transaction was accounted for as a continuity of interests with the continuing company a continuation of Former Yellowhead, including the presentation of Former Yellowhead's comparative figures. New Yellowhead is the resulting legal parent and accounting subsidiary and Harper Creek is the accounting parent and 100% owned legal subsidiary.

On November 17, 2010, pursuant to the closing of the Amalgamation, the Company's common shares were listed for trading on the TSX-V under the symbol "YMI", under the name Yellowhead Mining Inc. Upon conversion the 1,110,000 Four Points shares were converted into shares of the Company. In addition 111,000 stock options and 40,000 share purchase warrants were issued with an exercise price of $0.50 respectively.

As consideration for the acquisition, a total of 1,110,000 common shares of Yellowhead were issued at a fair value of $1,199,493 and 111,000 stock options and 40,000 share purchase warrants were issued at a fair value of $96,630 calculated using the Black-Scholes option pricing model. The Company incurred legal fees of $160,227 in conjunction with the transaction. The total consideration was allocated to share capital as follows, with amounts allocated to the tangible net assets of Four Points first and the remainder treated as a share issue cost. The fair value of the stock options and share purchase warrants issue was calculated using Black-Scholes with the following weighted average assumptions: risk-free interest rate 1.74%, expected volatility 77%, expected dividend yield 0% and expected life of 1.0 years for the stock options and 1.5 years for the share purchase warrants.

	Amount
Consideration	
Fair value of shares issued	$ 1,199,493
Fair value of stock options and warrants issued	96,630
Transaction costs	160,227
Total Consideration	$ 1,456,350
Assets acquired	
Cash	$ 261,292
HST receivable	4,245
Net assets acquired	$ 265,537
Amount allocated as share issue costs on reverse take-over	$ 1,190,813

(In Canadian dollars)

6. FINANCIAL INSTRUMENTS

Designation and valuation of financial instruments

The Company has designated its cash and cash equivalents as held-for-trading; and accounts payable and accrued liabilities and due to related parties as other-financial-liabilities.

HST receivable and mineral exploration tax credits receivable are excluded from financial instruments as they arise from statutory requirements imposed by the Government of Canada and the Province of British Columbia, respectively.

The carrying values of cash and cash equivalents, accounts payable and accrued liabilities, and due to related parties approximate their fair values because of the short-term maturity of these financial instruments.

The following tables summarizes the designation of the Company's financial instruments that are measured subsequent to initial recognition at fair value, grouped into Level 1 to 3 based on the degree to which the inputs used to determine the fair value are observable:

- Level 1 of the fair value hierarchy includes unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 of the hierarchy includes inputs that are observable for the asset or liability, either directly or indirectly; and
- Level 3 includes inputs for the asset or liability that are not based on observable market data.

The Company does not have any financial instruments included in Level 1, 2 and 3.

The Company's financial assets and liabilities are as follows:

	As at		
	December 31, 2012	**October 31, 2011**	**November 1, 2010**
Financial assets			
Loans-and-receivables			
Cash and cash equivalents	**$ 7,060,334**	$ 15,668,987	$ 4,734,825
Total financial assets	**$ 7,060,334**	$ 15,668,987	$ 4,734,825
Financial liabilities			
Other-financial-liabilities			
Accounts payable and accrued liabilities	**$ 1,339,083**	$ 1,804,138	$ 87,853
Due to related parties	**45,021**	362,988	331,306
Total financial liabilities	**$ 1,384,104**	$ 2,167,126	$ 419,159

6. FINANCIAL INSTRUMENTS (CONTINUED)

Financial Risk

The Company's risk exposure and the impact on the Company's financial instruments are summarized below:

(a) Credit risk

Credit risk is the risk of potential loss to the Company if the counterparty to a financial instrument fails to meet its contractual obligations.

The Company is exposed to credit risk with respect to its cash and cash equivalents; however, this is minimized as cash and cash equivalents are placed with major Canadian financial institutions with strong investment-grade ratings as determined by a primary ratings agency.

(b) Liquidity risk

Liquidity risk is the risk that the Company will not have sufficient cash to meet its financial obligations as they become due.

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when they are due. As at December 31, 2012, the Company had cash and cash equivalents of $7,060,334 (October 31, 2011 - $15,668,987) available to settle current financial liabilities of $1,384,104 (October 31, 2011 - $2,167,126). All of the Company's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms.

(c) Market risk

Market risks consist of interest rate risk, foreign currency risk and other price risk. The Company is not exposed to foreign currency risk or other price risks.

Interest rate risk
The Company's cash balance is held in a savings account which pays interest of approximately 1%.

The Company is not exposed to significant interest rate risk due to the short-term maturity of its monetary assets and liabilities.

7. CAPITAL MANAGEMENT

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the development and exploration of its mineral interests and to maintain a flexible capital structure, which optimizes the costs of capital to an acceptable risk.

The Company depends on external financing to fund its activities and there can be no guarantee that external financing will be available at terms acceptable to the Company. The capital structure of the Company currently consists of common shares, stock options and share purchase warrants. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may issue new shares. Management reviews its capital management approach on a regular basis. There were no changes in the Company's approach to capital management and the Company is not subject to any externally imposed capital requirements.

The Company's investment policy is to hold its cash in high interest savings accounts and highly liquid short-term interest-bearing investments with maturities of 90 days or less from the original date of acquisition, all held with major Canadian financial institutions.

8. SEGMENTED INFORMATION

The Company has one reportable operating segment, being the exploration and development of the Harper Creek mineral property. The remainder of the Company's operations are part of its Corporate Office which does not earn revenues or earns revenues that are only incidental to the activities of the entity and therefore does not meet the definition of an operating segment.

Geographically the Company only operates in one jurisdiction as both the Harper Creek operating segment and the Corporate Office are located in Canada.

(In Canadian dollars)

9. EVALUATION AND EXPLORATION EXPENSES

	Fourteen months ended December 31, 2012	Twelve months ended October 31, 2011
Assaying	**$ 362,524**	$ 596,528
Camp and field supplies	**400,630**	658,327
Contract wages	**498,493**	1,577,897
Drilling	**1,806,104**	2,408,707
Engineering	**1,548,114**	1,026,756
Environmental assessment	**3,448,611**	1,042,040
Equipment rental	**181,262**	480,069
Geological consulting	**14,256**	319,147
Geophysical consulting	**508,417**	1,494,756
Reports, drafting and maps	**59,064**	21,851
Travel and accommodation	**1,901**	16,127
Mining tax adjustment (1)	**651,552**	-
Other	**112,329**	-
Total evaluation and exploration expenses	**$ 9,593,257**	$ 9,642,205

(1) The mining tax adjustment has been discussed in further detail in Note 12.

(In Canadian dollars)

10. INCOME TAXES

The reconciliation of income tax at Canadian statutory rates of 25.21% (2011 – 28.50%) with the reported taxes is as follows for the:

	Fourteen months ended December 31, 2012	Twelve months ended October 31, 2011
Net loss for period	**$ (15,149,699)**	$ (15,476,816)
Statutory income tax rate	**25.21%**	28.50%
Expected income tax recovery	**(3,819,888)**	(4,410,893)
Items not deductible for tax	**148,676**	13,078
Changes in timing differences	**466,744**	(550,833)
Effect of change in tax rates	**(392,081)**	292,831
Unused tax losses and tax offsets not recognized	**3,596,549**	4,655,817
Tax expense for the period	**-**	-

The Company recognizes tax benefits on losses or other deductible amounts where the probable criteria for the recognition of deferred tax assets has been met. The Company's unrecognized deductible temporary differences and unused tax losses for which no deferred tax asset is recognized consist of the following amounts:

	As at	
	December 31, 2012	October 31, 2011
Non-capital losses	**$ 28,850,842**	$ 12,976,512
Mineral interests	**9,496,023**	11,523,944
Property, plant and equipment	**381,035**	282,504
Share issue costs	**1,467,569**	1,559,052
Non-refundable Income Tax Credits	**942,785**	4,608,280
Total unrecognized deferred tax assets	**$ 41,138,254**	$ 30,950,292

The Company has non-capital losses that may be carried forward to apply against future years' income as follows:

Year of expiry	Amount
2026	**$ 264,357**
2027	**763,888**
2028	**1,811,317**
2029	**763,318**
2030	**977,786**
2031	**9,330,102**
2032	**14,940,074**
Total non-capital loss carry forwards	**$ 28,850,842**

(In Canadian dollars)

11. LOSS PER SHARE

The calculation of basic and diluted loss per share is based on the following data:

	Fourteen months ended December 31, 2012	Twelve months ended October 31, 2011
Net loss	**$ 15,149,699**	$ 15,476,816
Weighted average number of shares	**54,168,518**	44,974,574
Basic and diluted loss per share	**$ 0.28**	$ 0.34

The basic loss per share is calculated by dividing the net loss by the weight average number of shares outstanding during the period. The diluted loss per share represents the potential dilution by outstanding stock options and warrants in the weighted average number of common shares outstanding during the period if the stock options and warrants are dilutive. All of the outstanding stock options and warrants were anti-dilutive for the fourteen months ended December 31, 2012 and the twelve months ended October 31, 2011.

12. MINERAL EXPLORATION TAX CREDIT RECEIVABLE

The Province of British Columbia has a Mineral Exploration Tax Credit ("METC"), whereby a company receives a refundable tax credit for incurring qualified mining exploration expenses. For the Company's taxation year for the twelve months ended October 31, 2010, the Company submitted a METC claim and recorded a receivable of $195,846 and for the twelve months ended October 31, 2011, the Company submitted a METC claim and recorded a receivable of $2,363,337 for a total receivable of $2,559,183 as at October 31, 2011 with the receivable amounts being subject to a final audit from the Canada Revenue Agency ("CRA"). The Company will not be claiming any BC METC for the fourteen months ended December 31, 2012.

During the fourteen months ended December 31, 2012, the Company received the $195,846 related to the twelve months ended October 31, 2010 and determined there would be a reduction in the amount of METC received for the twelve months ended October 31, 2011 as a result of adjustments to the base used to calculate the credit and, accordingly, reduced the credit from $2,363,337 to $1,711,785 with a corresponding increase to exploration and evaluation expenditures.

(In Canadian dollars)

13. PROPERTY, PLANT AND EQUIPMENT

	Computer equipment and software	Furniture and fixtures	Field camp equipment	Land	Total
Cost					
As at October 31, 2011	$ 35,587	$ 30,480	$ 437,157	$ -	$ 503,224
Additions	2,397	1,384	-	2,222,729	2,226,510
Disposals	(2,724)	-	-	-	(2,724)
As at December 31, 2012	35,260	31,864	437,157	2,222,729	2,727,010
Accumulated depreciation					
As at October 31, 2011	2,411	1,451	296,000	-	299,862
Charge for the period	14,141	7,435	76,955	-	98,531
Disposals	(1,134)	-	-	-	(1,134)
As at December 31, 2012	15,418	8,886	372,955	-	397,259
Net book value as at December 31, 2012	**$ 19,842**	**$ 22,978**	**$ 64,202**	**$ 2,222,729**	**$ 2,329,751**

	Computer equipment and software	Furniture and fixtures	Field camp equipment	Land	Total
Cost					
As at November 1, 2010	$ 8,931	$ -	$ 364,634	$ -	$ 373,565
Additions	35,586	30,480	72,523	-	138,589
Disposals	(8,930)	-	-	-	(8,930)
As at October 31, 2011	35,587	30,480	437,157	-	503,224
Accumulated depreciation					
As at November 1, 2010	8,931	-	219,856	-	228,787
Charge for the year	2,411	1,451	76,144	-	80,006
Disposals	(8,931)	-	-		(8,931)
As at October 31, 2011	2,411	1,451	296,000	-	299,862
Net book value as at October 31, 2011	**$ 33,176**	**$ 29,029**	**$ 141,157**	**$ -**	**$ 203,362**

(In Canadian dollars)

14. MINERAL INTERESTS

		Amount
Cost		
Balance as at November 1, 2010	$	767,984
Additions		66,042
Disposals		-
Balance as at October 31, 2011		834,026
Additions		**51,209**
Disposals		**-**
Balance as at December 31, 2012	**$**	**885,235**

On November 3, 2011, the Company extended all 131 of its mineral tenures through to November 3, 2017.

As per current legislation in relation with the Company's exploration permit the Company is required to lodge a reclamation bond with the Government of British Columbia. During the fourteen months ended December 31, 2012 the reclamation bond was increased by $10,000 to $85,000.

15. PREPAID EXPENSES AND DEPOSITS

The Company's prepaid expenses and deposits consist of the following amounts:

	As at					
		December 31, 2012		**October 31, 2011**		**November 1, 2010**
Prepaid insurance	**$**	**33,548**	$	25,679	$	-
Security deposits and advance payments		**208,072**		319,420		326,141
Total short term prepaid expenses and deposits		**241,620**		345,099		326,141
Rent deposit for corporate office		**50,000**		50,000		-
Total prepaid expenses and deposits	**$**	**291,620**	$	395,099	$	326,141

16. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

As at December 31, 2012, the Company had accounts payable and accrued liabilities of $1,339,083 (October 31, 2011 - $1,804,138). All accounts payable and accrued liabilities were current as at December 31, 2012.

17. RELATED PARTY TRANSACTIONS

Related party transactions not disclosed elsewhere in these financial statements are as follows:

- During the fourteen months ended December 31, 2012, the Company paid and accrued management fees of $nil (October 31, 2011 - $138,300) to Andreas Consulting Inc., a company controlled by the former CEO of the Company. As at December 31, 2012, the balance owing to that company was $nil (October 31, 2011 - $nil).
- During the fourteen months ended December 31, 2012, the Company paid and accrued management fees of $nil (October 31, 2011 - $74,200) to Handford Management Ltd., a company controlled by an officer of the Company. As at December 31, 2012, the balance owing to that company was $nil (October 31, 2011 - $nil).
- During the fourteen months ended December 31, 2012, the Company paid and accrued project management fees, exploration expenses and office costs of $1,045,604 (October 31, 2011 - $4,469,170) to CME Consultants Inc., a contractor company whose president is a director of the Company's 100% owned subsidiary Harper Creek Mining Corp. As at December 31, 2012, the balance owing to that company was $45,021 (October 31, 2011 - $362,988).
- During the fourteen months ended December 31, 2012, the Company paid and accrued management fees of $119,166 (October 31, 2011 - $90,000) to Twinstone Ventures Inc., a company related to the current interim CEO and Chairman of the Board of Directors of the Company. As at December 31, 2012, the balance owing to that company was $nil (October 31, 2011 - $nil).

These transactions, occurring in the normal course of operations are measured at the estimated fair value of the services provided or goods received.

18. SHARE CAPITAL

(a) Authorized

Unlimited Class A common shares without par value

(b) Issued and outstanding

As at December 31, 2012, the Company had 63,450,170 common shares issued and outstanding (October 31, 2011 – 52,761,968).

Fourteen months ended December 31, 2012
During the fourteen months ended December 31, 2012, the Company issued 514,492 common shares for gross cash proceeds of $369,745 from the exercise of stock options and share purchase warrants.

In December 2012, the Company completed a non-brokered private placement. The Company issued 8,032,307 common shares at a price of $0.65 per share for gross cash proceeds of $5,221,000 and paid finder's fees associated with this placement of $261,050. The Company also issued 2,141,403 flow-through common shares at a price of $0.70 per share for gross cash proceeds of $1,498,982. Share capital was reduced by the premium attributed to the flow-through shares of $0.05 per share or $107,070 and the Company paid finder's fees associated with this flow-through placement of $83,449. The Company also incurred legal costs of $42,572 with relation to the private placement of the common shares and flow-through shares which was treated as share issue costs.

Flow-through share arrangements involve resource expenditure deductions for income tax purposes which are renounced to purchasers of flow-through shares in accordance with income tax legislation. Each flow through share entitles the holder to a 100% tax deduction in respect of qualifying Canadian Exploration Expenses ("CEE") as defined in the Income Tax Act of Canada. Accordingly the Company is required to incur a total of $1,498,982 of eligible CEE by December 31, 2013 with respect to the shares issued during the fourteen months ended December 31, 2012.

Twelve months ended October 31, 2011
During the twelve months ended October 31, 2011, the Company issued 451,092 common shares for gross cash proceeds of $204,046 from the exercise of stock options, agent warrants and share purchase warrants.

Pursuant to a private placement completed on November 9, 2010, the Company issued 2,437,863 units at $1.08 per unit for gross proceeds of $2,632,892. Each unit comprised one common share and one-half of one share purchase warrant; each warrant entitling the holder to purchase an additional common share at $1.40 until November 9, 2012. Finder's fees and other share issue costs associated with this placement were $207,240. Included in share issue costs was the fair value of non-cash costs totaling $54,227 for 118,931 agent warrants, which was calculated using the Black-Scholes option pricing model with the following weighted average assumptions: risk-free interest rate of 1.42%, expected volatility of 77%, expected life of 2 years and an expected dividend yield of 0%.

(In Canadian dollars)

18. SHARE CAPITAL (Continued)

Pursuant to bought deal private placement completed on April 15, 2011, the Company issued 17,164,632 units at $1.45 per unit for gross proceeds of $24,888,716. Each unit comprised one common share and one-half of one share purchase warrant; each warrant entitling the holder to purchase an additional common share at $2.00 until April 5, 2013. Finder's fees and other share issue costs associated with this placement amounted to $2,221,149. Included in share issue costs was the fair value of non-cash costs totaling $613,975 for 952,200 agent warrants, which was calculated using the Black-Scholes option pricing model with the following weighted average assumptions: risk-free interest rate of 1.86%, expected volatility of 77%, expected life of 2 years and an expected dividend yield of 0%.

Included in share capital as at October 31, 2011, were 11,674,075 shares held in escrow; 5,837,038 shares were released on November 17, 2011, with the remainder released on May 17, 2012.

(c) Stock options

The Company implemented a new stock option plan on April 19, 2012, whereby the Board of Directors of the Company may grant directors, officers, employees, and consultants stock options to acquire common shares of the Company. Under the stock option plan, options granted are non-assignable and may be granted for a term not exceeding ten years. The plan is administered by the Board of Directors, which determines individual eligibility under the plan, the number of shares reserved underlying the options granted to each individual (not exceeding 10% of issued and outstanding shares to any insider; not exceeding 2% of the issued and outstanding shares to any consultant or persons employed to provide investor relations services) and any vesting period which, pursuant to the stock option plan can be determined and imposed by the Board of Directors. The plan provides for a rolling maximum and allows the Company to issue stock options up to a maximum of 10% of the Company's issued and outstanding common shares.

The movement in the Company's stock options for the fourteen months ended December 31, 2012 was as follows:

	Number of options	Weighted average exercise price
Outstanding, November 1, 2010	2,725,000	$ 0.90
Granted	2,232,500	1.23
Granted on acquisition of Four Points (Note 5)	111,000	0.50
Exercised	(405,500)	0.41
Forfeited	(3,750)	1.25
Expired	(305,000)	0.98
Outstanding, October 31, 2011	4,354,250	1.10
Granted	**1,962,500**	**1.22**
Exercised	**(505,500)**	**0.72**
Forfeited	**(355,000)**	**1.25**
Expired	**(703,750)**	**1.06**
Outstanding, December 31, 2012	**4,752,500**	**$ 1.18**

(In Canadian dollars)

18. SHARE CAPITAL (Continued)

The Company's outstanding and exercisable stock options as at December 31, 2012 are as follows:

	Outstanding		Exercisable	
Exercise price	**Number outstanding**	**Weighted average remaining life (years)**	**Number exercisable**	**Weighted average remaining life (years)**
$0.62	100,000	4.96	-	-
$1.00	525,000	0.82	525,000	0.82
$1.08	750,000	2.81	750,000	2.81
$1.25	3,377,500	3.33	2,259,576	2.90
	4,752,500	**3.01**	**3,534,576**	**2.57**

(d) Share-based compensation

During the fourteen months ended December 31, 2012, the Company granted 1,962,500 stock options (October 31, 2011: 2,232,500) at a weighted average exercise price of $1.22 (October 31, 2011: $1.23). The weighted average fair value for the options granted in the fourteen months ended December 31, 2012 was $0.57 (October 31, 2011: $0.79) which was estimated at the date of the grants using the Black-Scholes option pricing model using the following assumptions:

	Fourteen months ended December 31, 2012	**Twelve months ended October 31, 2011**
Risk-free interest rate	**1.47%**	2.55%
Expected dividend yield	**-**	-
Expected stock price volatility	**87%**	93%
Expected option life	**4.8 years**	5.0 years

During the fourteen months ended December 31, 2012, the Company recorded share-based compensation of $554,611 (October 31, 2011: $1,876,638). The Company estimated a forfeiture rate of 0% (2011 – 0%) to record the share-based compensation expense for options granted in the period. Option pricing models require the input of highly subjective assumptions including the expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate.

(In Canadian dollars)

18. SHARE CAPITAL (Continued)

(e) Share purchase warrants

During the fourteen months ended December 31, 2012, the Company did not issue any share purchase warrants.

During the twelve months ended October 31, 2011, the Company granted the following warrants:

- 1,218,933 share purchase warrants with an exercise price of $1.40 and expiring on November 3, 2012. These were granted as part of a private placement and were assigned no value on the grant date.
- 118,931 agent's warrants with an exercise price of $1.08 and expiring on November 3, 2012. The fair value of these warrants was $54,227 calculated using Black-Scholes with the following weighted average assumptions: risk-free interest rate 1.42%, expected volatility 77%, expected life 2 years and expected dividend yield 0%.
- 40,000 share purchase warrants were granted as part of the reverse take-over (Note 5) with an exercise price of $0.50 and expiring on March 29, 2012. The fair value of these warrants was $26,558 calculated using Black-Scholes with the following weighted average assumptions: risk-free interest rate 1.74%, expected volatility 77%, expected life 1.5 years and expected dividend yield 0%.
- 8,582,316 share purchase warrants with an exercise price of $2.00 and expiring on April 5, 2013. These were granted as part of a private placement and were assigned no value on the grant date.
- 952,200 agent's warrants with an exercise price of $1.45 and expiring on April 5, 2013. The fair value of these warrants was $613,975 calculated using Black-Scholes with the following weighted average assumptions: risk-free interest rate 1.86%, expected volatility 77%, expected life 2 years and expected dividend yield 0%.

The movement in the Company's share purchase warrants for the fourteen months ended December 31, 2012 was as follows:

	Number of warrants	Weighted average exercise price
Outstanding, November 1, 2010	2,518,004	$ 1.40
Issued	10,872,380	1.87
Granted on acquisition of Four Points (Note 5)	40,000	0.50
Exercised	(45,592)	0.80
Outstanding, October 31, 2011	13,384,792	1.78
Issued	**-**	**-**
Exercised	**(8,992)**	**0.50**
Expired	**(3,841,284)**	**1.39**
Outstanding, December 31, 2012	**9,534,516**	**$ 1.95**

(In Canadian dollars)

18. SHARE CAPITAL (Continued)

The Company's outstanding share purchase warrants as at December 31, 2012 are as follows:

Exercise price	Number of warrants	Weighted average remaining life (years)
Share purchase warrants		
$2.00	8,582,316	0.26
Agents warrants		
$1.45	952,200	0.26
	9,534,516	**0.26**

19. KEY MANAGEMENT COMPENSATION

The remuneration of the Company's Directors and other members of key management, being the Chief Executive Officer and Chief Financial Officer, who have the authority and responsibility for planning, directing and controlling the activities of the Company, consist of the following amounts:

	Fourteen months ended December 31, 2012	Twelve months ended October 31, 2011
Short term benefits [1]	**$ 709,576**	$ 326,425
Share-based compensation [2]	**374,182**	935,167
Termination benefits	**359,250**	-
Total Remuneration	**$ 1,443,008**	$ 1,261,592

(1) Short term benefits include salaries, bonuses, management fees and directors fees.
(2) The Black-Scholes option pricing model was used to calculate the fair value of the stock options (Note 18).

(In Canadian dollars)

20. SUPPLEMENTAL CASH FLOW INFORMATION

	Fourteen months ended December 31, 2012	Twelve months ended October 31, 2011
Supplementary Information		
Interest received	**$ 126,673**	$ 156,463
Income taxes paid	**-**	-

The Company did not have any non-cash financing or investing activities for the fourteen months ended December 31, 2012 or the twelve months ended October 31, 2011.

21. COMMITMENTS

As at December 31, 2012, the Company had the following contractual commitments:

Rental Commitments

The Company has commitments related to the minimum rental and operating expenses payments for the Company's office space in downtown Vancouver. The lease was effective September 1, 2011 and concludes on August 31, 2016. These commitments in each of the next four years are approximately as follows:

Year Incurred	Amount
2013	**$ 118,400**
2014	**121,400**
2015	**124,400**
2016	**84,300**
Total commitments	**$ 448,500**

In-fill Drilling Commitment

As part of the private placement announced by the Company in October 2012 and completed in December 2012, the Company entered into an agreement with a major investor in this placement to spend approximately $3 million on an in-fill drilling campaign. As at December 31, 2012 the Company had incurred approximately $717K related to the in-fill drilling commitment, the remaining amount will be incurred in the first half of 2013.

Flow-through Commitments

The Company entered into flow-through share subscription agreements during the fourteen months ended December 31, 2012, whereby it agreed to renounce to investors a total of $1,498,982 of qualifying Canadian Exploration Expenses as described in the Income Tax Act of Canada, with an effective date of December 31, 2012. The Company is committed to incur the expenditures on or before December 31, 2013. The Company is required to pay Part XII.6 tax (approximately 1% per month) on the unspent amount between February 28, 2013 and December 31, 2013. At December 31, 2012 the Company had not expended any funds towards this commitment.

22. FIRST TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Canadian Accounting Standards Board has mandated the adoption of IFRS effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011 for Canadian publicly accountable profit-orientated enterprises.

The accounting policies described in Note 3 have been applied in preparing the consolidated financial statements for the fourteen months ended December 31, 2012 and all comparative information provided, including the Company's opening IFRS consolidated statement of financial position on the Transition Date, November 1, 2010.

IFRS 1 - *First-time Adoption of International Financial Reporting Standards* sets forth guidance for the initial adoption of IFRS. Under IFRS 1, the standards are applied retrospectively at the transitional statement of financial position date with all adjustments to assets and liabilities charged or credited to retained earnings unless certain exemptions are applied. The Company has applied the following exemptions to its opening statement of financial position dated November 1, 2010:

- *Share-based payments* - The Company has elected not to apply IFRS 2 - *Share-based payments* to awards that vested prior to November 1, 2010, which has been accounted for in accordance with Canadian GAAP.

Estimates
In accordance with IFRS 1, an entity's estimate under IFRS at the date of transition to IFRS must be consistent with estimates made for the same date under previous GAAP, unless there is objective evidence that those estimates were erroneous. The Company applied estimates that are consistent with the estimates made for its Canadian GAAP reporting.

Explanation of differences between Canadian GAAP and IFRS giving rise to the adjustments in the reconciliations provided:

(a) Exploration and evaluation

On transition to IFRS, the Company elected to change its accounting policy for treatment of evaluation and exploration expenses to expensing all evaluation and exploration expenditures as incurred. This change was made to align the Company with policies applied by other comparable companies at a similar stage in the mining industry. Previously, the Company's Canadian GAAP policy was to capitalize exploration and evaluation expenditures as incurred. The result of this change is that previously capitalized evaluation and exploration costs have been re-classed to retained earnings on the statement of financial position and the evaluation and exploration costs incurred in the reconciled periods have been recorded on the statement of comprehensive income.

22. FIRST TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)

(b) Reverse take-over

IFRS requires that a transaction that does not constitute a business combination under IFRS 3, be recognized as a share based payment under IFRS 2. Under IFRS, identifiable intangible assets are recorded at their fair value and tangible assets are recognized as an expense, calculated as the difference between the fair value of the share-based payments and the fair value of the identifiable goods received. Previously, under Canadian GAAP, the tangible net assets of Four Points were recapitalized to share capital. The result of this change is that under IFRS an additional $1,094,183 was added to share capital and a corresponding amount was charged to the statement of comprehensive income as share issue costs on reverse take-over. Furthermore $96,630 was recorded to the statement of comprehensive income, which is the fair value of the Four Points stock options and share purchase warrants that were converted into stock options and share purchase warrants of the Company, and a corresponding amount was added to equity reserves.

(c) Share based payments

Under IFRS, an entity is required to estimate the number of equity-settled instruments that are expected to vest and then make adjustments to the actual number that vest unless forfeitures are due to market based conditions. The Company reviewed the application of a forfeiture rate, however due to the lack of historical information as the Company was listed on the TSX-V on November 10, 2010, management sustained a forfeiture rate of zero and will be required to do an adjustment for the actual forfeiture rate versus the initial estimate of zero when the options vest. Under Canadian GAAP, the Company elected to accrue compensation cost as if all instruments granted were expected to vest. This difference has had no impact on the Company's previously reported financial position or profit and loss.

(d) Reclassifications

The Company has reclassified certain balances on its consolidated statements of financial position, comprehensive income and cash flows to conform with the Company's adjusted note disclosures resulting from the transition to IFRS.

(e) Reconciliations

The Company has prepared the following Canadian GAAP to IFRS reconciliations in association with the Company's transition to IFRS with each adjustment referenced to notes (a) and (b) above:

(In Canadian dollars)

22. FIRST TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)

Statement of Financial Position as at November 1, 2010

	NOTES	Canadian GAAP	IFRS adjustments	IFRS
ASSETS				
Current assets				
Cash and cash equivalents		$ 4,734,825	$ -	$ 4,734,825
Mineral exploration tax credit receivable		195,846	-	195,846
HST receivable		87,778	-	87,778
Prepaid expenses and deposits		326,141	-	326,141
		5,344,590	-	5,344,590
Non-current assets				
Property, plant and equipment		144,778	-	144,778
Mineral interests	(a)	10,830,163	(10,062,179)	767,984
Reclamation Bond		75,000	-	75,000
Long-term deposits		-	-	-
		11,049,941	(10,062,179)	987,762
TOTAL ASSETS		$ 16,394,531	$ (10,062,179)	$ 6,332,352
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities		$ 87,853	$ -	$ 87,853
Due to related parties		331,306	-	331,306
		419,159	-	419,159
EQUITY				
Share capital		17,338,694	-	17,338,694
Share subscriptions received		475,250	-	475,250
Equity reserves		1,874,205	-	1,874,205
Accumulated deficit	(a)	(3,712,777)	(10,062,179)	(13,774,956)
		15,975,372	(10,062,179)	5,913,193
TOTAL LIABILITY AND EQUITY		$ 16,394,531	$ (10,062,179)	$ 6,332,352

(In Canadian dollars)

22. FIRST TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)

Statement of Financial Position as at October 31, 2011

	NOTES	Canadian GAAP	IFRS adjustments	IFRS
ASSETS				
Current assets				
Cash and cash equivalents		$ 15,668,987	$ -	$ 15,668,987
Mineral exploration tax credit receivable		2,559,183	-	2,559,183
HST receivable		1,530,825	-	1,530,825
Prepaid expenses and deposits		345,099	-	345,099
		20,104,094	-	20,104,094
Non-current assets				
Property, plant and equipment		203,362	-	203,362
Mineral interests	(a)	20,538,409	(19,704,383)	834,026
Reclamation Bond		75,000	-	75,000
Long-term deposits		50,000	-	50,000
		20,866,771	(19,704,383)	1,162,388
TOTAL ASSETS		$ 40,970,865	$(19,704,383)	$ 21,266,482
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities		$ 1,804,138	$ -	$ 1,804,138
Due to related parties		362,988	-	362,988
		2,167,126	-	2,167,126
EQUITY				
Share capital	(b)	42,780,849	1,094,183	43,875,032
Share subscriptions received		-	-	-
Equity reserves	(b)	4,379,465	96,630	4,476,095
Accumulated deficit	(a)(b)	(8,356,575)	(20,895,196)	(29,251,771)
		38,803,739	(19,704,383)	19,099,356
TOTAL LIABILITY AND EQUITY		$ 40,970,865	$(19,704,383)	$ 21,266,482

(In Canadian dollars)

22. FIRST TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)

Statement of Comprehensive Income for the twelve months ended October 31, 2011

	NOTES	Canadian GAAP	IFRS adjustments	IFRS
Administrative expenses				
Wages and benefits		$ 861,102	$ -	$ 861,102
Share-based compensation		1,876,638	-	1,876,638
Investor relations		879,140	-	879,140
Consulting fees		460,741	-	460,741
Professional Fees		366,762	-	366,762
Filing fees		104,011	-	104,011
Office supplies and services		98,624	-	98,624
Amortization		80,006	-	80,006
Rent		44,480	-	44,480
Insurance		24,133	-	24,133
		4,795,637	-	4,795,637
Evaluation and exploration expenses	(a)	-	9,642,205	9,642,205
Other expenses/(income)				
Share issue costs on reverse take over	(b)	-	1,190,813	1,190,813
Interest income		(156,463)	-	(156,463)
Other expenses		4,624	-	4,624
Net loss and comprehensive loss		$ 4,643,798	$ 10,833,018	$ 15,476,816
Loss per share				
Basic and diluted		$ 0.10		$ 0.34
Weighted average number of shares outstanding				
Basic and diluted		44,974,574		44,974,574

(In Canadian dollars)

22. FIRST TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)

Statement of Cash Flows for the twelve months ended October 31, 2011

	NOTES	Canadian GAAP	IFRS adjustments	IFRS
Operating activities				
Net Loss for the period	(a)(b)	$ (4,643,798)	$(10,833,018)	$(15,476,816)
Items not involving cash:				
Share issue costs on reverse take over		-	1,190,813	1,190,813
Share-based compensation		1,876,638	-	1,876,638
Amortization		80,006	-	80,006
Changes in non-cash working capital				
Mineral exploration tax credit receivable	(a)	-	(2,363,337)	(2,363,337)
HST receivable		(1,438,802)	-	(1,438,802)
Prepaid expenses and deposits		(18,958)	-	(18,958)
Accounts payable and accrued liabilities	(a)	282,675	1,433,610	1,716,285
Due to related parties	(a)	(36,299)	67,981	31,682
Cash used in operating activities		(3,898,538)	(10,503,951)	(14,402,489)
Investing activities				
Acquisition of property, plant and equipment		(138,589)	-	(138,589)
Acquisition of mineral interests	(a)	(10,569,993)	10,503,951	(66,042)
Deposit paid		(50,000)	-	(50,000)
Cash received upon acquisition of Four Points		101,065	-	101,065
Cash used in investing activities		(10,657,517)	10,503,951	(153,566)
Financing activities				
Proceeds from issuance of capital stock, net of share issue costs		25,490,217		25,490,217
Cash provided by financing activities		25,490,217	-	25,490,217
Net increase/(decrease) in cash and cash equivalents		10,934,162	-	10,934,162
Cash and cash equivalents, beginning of year		4,734,825	-	4,734,825
Cash and cash equivalents, end of year		$ 15,668,987	$ -	$ 15,668,987

23. CONTINGENCIES

Due to the nature of the Company's operations, various legal and tax matters arise in the ordinary course of business. The Company accrues for such items when a liability is both probable and the amount can be reasonably estimated. In the opinion of management, these matters will not have a material effect on the consolidated financial statements of the Company.